

**MASTER GLOSSARY OF TERMS**  
**Real Estate**  
**February 14, 2005**

**Introduction**

This master glossary identifies, defines, and clarifies the meaning of investment terms used by CalPERS in its investment policies. The purpose of the master glossary is to establish a uniform vocabulary of terms for users of these policies.

**Acquisition** - Gaining the controlling interest over an asset, usually referring to one company buying out another.

Policies:

- Extended Market Public Real Estate Equity Securities (Extended Market PREES)
- Enhanced Core Index Public Real Estate Equity Securities (Enhanced Core PREES) - Internally Managed

**Appreciation Return** - The percentage change in the market value of a property or portfolio, adjusted for capital improvements and partial sales, over a period of analysis.

Policy:

- Equity Real Estate

**Asbestos** - Asbestos is a mineral which formerly was widely used in building construction, particularly in insulation, roofing felts, fire-resistant drywall, and acoustical products.

Policy:

- Hazardous Materials in Real Estate Investments

**Assisted Living** - Assisted living refers to properties that include multi-unit residential facilities with supportive hospitality services such as meals, housekeeping, transportation, and social programs, as well as 24-hour protective services and personal care assistance.

Policy:

- Senior Housing Program

**Bond Financed Project** - A development project which is or was partially funded through the use of government-issued tax-free bonds. The interest cost on such bonds is typically less than that of traditional financing. Development of apartments with a significant proportion of “low-income housing” is a common type of bond-financed project.

Policy:

- Equity Real Estate

**Capitalization** - The current equity market value of a stock (total outstanding shares multiplied by current price per share).

Policies:

- Extended Market Public Real Estate Equity Securities (Extended Market PREES)
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**Co-Investment** - A direct investment into a portfolio company by limited partners alongside the general partner and generally done so on similar terms.

Policy:

- Equity Real Estate

**Community Shopping Center** - Retail property that serves customers residing within a three-to-six mile radius. Community shopping centers offer general merchandise and provide convenience for consumers by supplying groceries, drugs, and other services. The size range is typically 100,000-350,000 square feet of shopping area. The projects typically incorporate at least two anchors.

Policy:

- Core Retail Real Estate

**Continuing Care Retirement Community** - Continuing care retirement communities refer to senior housing properties that provide a full continuum of care to meet the changing needs from independent living to nursing care.

Policy:

- Senior Housing Program

**Convertible Mortgage** - An investment structure wherein the lender (the System), receives mortgage interest and an option to convert a portion or all of the loan balance into equity.

Policy:

- Equity Real Estate

**Convertible Participating Mortgage** - An investment structure wherein the lender's (the System) return consists of mortgage interest plus potential contingent interest, expressed as a percentage of property operating cash flow and/or property appreciation upon sale or refinancing, and where the lender has an option to convert a portion or all of the loan balance into a percentage of equity.

Policy:

- Equity Real Estate

**Corporate Actions** - An action taken by a company that causes a material change in structure including, but not limited to, name, price, shares, capitalization, or other such events. Typical corporate actions include tender offers, mergers, Dutch auctions, and spin-offs.

Policies:

Extended Market Public Real Estate Equity Securities (Extended Market PREES)

- Enhanced Core Index Public Real Estate Equity Securities (Enhanced Core PREES) - Internally Managed

**Custodian** - A bank or other financial institution that provides custody of stock certificates and other assets of an institutional investor.

Policies:

- Extended Market Public Real Estate Equity Securities (Extended Market PREES)
- Enhanced Core Index Public Real Estate Equity Securities (Enhanced Core PREES) - Internally Managed

**Debt Service Coverage** - The annual net operating income divided by the annual debt service.

Policy:

- Equity Real Estate Leverage

**Derivative** - An instrument whose value is based on the performance of an underlying financial asset, index, or other investment. Classes of derivatives include futures contracts, options, currency forward contracts, swaps, and options on futures.

Policies:

- Extended Market Public Real Estate Equity Securities (Extended Market PREES)

- Enhanced Core Index Public Real Estate Equity Securities (Enhanced Core PREES) - Internally Managed

**Direct Investment** - An investment in which the System has ownership interest in a property or group of properties.

Policy:

- Equity Real Estate

**Earnouts** - A dollar amount held back until the event is completed. That is, a seller of a property will earn a portion of their price upon achieving a pre-established lease-up level.

Policy:

- Real Estate Hybrid Debt Investments

**Economic Analysis** - Examines reference points for indications on what to look for and what events are considered significant in the economy to understand relationships among complex and often seemingly unrelated events. This analysis is used in making decisions concerning duration and sector weightings.

Policies:

- Extended Market Public Real Estate Equity Securities (Extended Market PREES)
- Enhanced Core Index Public Real Estate Equity Securities (Enhanced Core PREES) - Internally Managed

**Enhanced Core PREES** - The System's Enhanced Core Index Public Real Estate Equity Securities (PREES) – Internally Managed.

Policy:

- Enhanced Core Index Public Real Estate Equity Securities (Enhanced Core PREES) - Internally Managed

**Equity Participation Feature** - A debt instrument in which the lender (the System) either has claims to contingent interest (in the form of additional cash from operations or capital appreciation) or equity conversion rights.

Policy:

- Equity Real Estate

**Equity Real Estate** - Refers to real estate investments in which the investor (the System) has an ownership interest. The term is generally used in contrast with conventional mortgage investments.

Policy:

- Equity Real Estate

**Extended Market PREES** - The System's policy for Extended Market Public Real Estate Equity Securities. This policy allows investment in publicly traded real estate companies that are engaged in the ownership of core and/or non-core property types.

Policy:

- Extended Market Public Real Estate Equity Securities (Extended Market PREES)

**Fair Market Value** - An accounting term defined as the highest cash price a property would bring if exposed for sale in the open market by a willing seller to a willing buyer with both parties to the transaction being fully informed of all the uses and purposes to which the property is reasonably adaptive and available.

Policies:

- Core Office Real Estate
- Core Retail Real Estate
- Equity Real Estate

**Franchiser** - The owner of a trademark, trade name, or copyright authorizes others, under certain conditions, to use it in purveying goods or services.

Policy:

- Franchise Finance Real Estate

**Ground Lease** - A lease that grants the right to use and occupy land for a stated term. Ground leases exist in situations where the investor (the System) owns the real estate improvements but does not own the land underlying the improvements.

Policy:

- Equity Real Estate

**Holdbacks** - A specified dollar amount held back from being distributed to the borrower until a certain event is completed.

Policy:

- Real Estate Hybrid Debt Investments

**Housing Joint Ventures** - Housing joint ventures refer to properties that are acquired with the intention to develop or construct homes, including all forms of development for single family housing, such as condominiums, town homes, zero lot line developments, planned unit developments with and without common areas, and standard subdivisions.

Policy:

- Single Family Housing Program

**Incidental Development** - Incidental commercial/multi-family infrastructure lot development may be undertaken in the program, provided that it is not a major cost of the overall single family project.

Policy:

- Single Family Housing Program

**Income Return** - The component of return derived from property or portfolio operations during a period of analysis, expressed as a percentage of property market value.

Policy:

- Equity Real Estate

**Independent Living** - Independent living refers to properties that include multi-unit residential facilities with supportive hospitality services such as meals, housekeeping, transportation, and social programs.

Policy:

- Senior Housing Program

**Indirect Investment** - An investment in which the System has an ownership interest in an entity (i.e., a corporation) which primarily invests in real properties.

Policy:

- Equity Real Estate

**International** - Any geographic location other than the eight domestic U.S. NCREIF regions and the territory of Puerto Rico. The core portfolio may include investments internationally, limited to the North American countries of Canada and Mexico.

Policy:

- International Equity Real Estate

**Land** - Generally entitled vacant land held for potential development or resale.

Policy:

- Equity Real estate

**Land Development** - Land development refers to properties that are acquired with the intention to develop or construct infrastructure, including all forms of

acquisition and infrastructure development for single family housing, such as condominiums, town homes, zero lot line developments, planned unit developments with and without common area, and standard subdivisions.

Policy:

- Single Family Housing Program

**Land Entitlement Risk** - Land entitlement risk reflects the risks assumed by an investor when purchasing a parcel of land prior to the tentative map and other discretionary political approvals being granted by the appropriate regulatory bodies.

Policy:

- Single Family Housing Program

**Lead** - Lead-based paint and drinking water contaminated by lead-containing pipes or fixtures are the most common sources of lead exposure.

Policy:

- Hazardous Materials in Real Estate Investments

**Leasehold** - The right to use and occupy real estate for a stated term and under certain conditions. Leasehold interest is conveyed by a lease.

Policy:

- Equity Real Estate

**Leverage** - A condition where a portfolio's market obligation may exceed the market-value-adjusted capital commitment by the amount of borrowed capital (debt).

Policies:

- Extended Market Public Real Estate Equity Securities (Extended Market PREES)
- Enhanced Core Index Public Real Estate Equity Securities (Enhanced Core PREES) - Internally Managed
- Equity Real Estate
- Equity Real Estate Leverage

**Leverage Ratio** - The System's share of consolidated debt divided by the System's share of fair market value of gross assets.

Policy:

- Equity Real Estate Leverage

**Leveraged Equity Investment** - Refers to investments in real estate in which the investor (the System) has an equity interest and the purchase or ownership of the investment is or partially financed with debt.

Policy:

- Equity Real Estate

**Management Firms** - External Investment Managers

Policy:

- Real Estate Investment Manager Monitoring Program - Externally Managed

**Market Capitalization** - A stock's current market price multiplied by the current common shares outstanding.

Policies:

- Extended Market Public Real Estate Equity Securities (Extended Market PREES)
- Enhanced Core Index Public Real Estate Equity Securities (Enhanced Core PREES) - Internally Managed

**Market Position** - The strength of sales of the market concept as it relates to a particular market and its demographics.

Policy:

- Franchise Finance Real Estate

**Market Value Allocation** - Classification by individual third party source giving consideration to square footage, value of respective property types, classification of property types, and so forth.

Policies:

- Enhanced Core Index Public Real Estate Equity Securities (Enhanced Core PREES) - Internally Managed
- Extended Market Public Real Estate Equity Securities (Extended Market PREES)

**Merger** - The combination of two or more companies. Strictly speaking, only combinations in which one of the companies survives as a legal entity are called mergers.

Policy:

- Enhanced Core Index Public Real Estate Equity Securities (Enhanced Core PREES) - Internally Managed



**Molds, Fungi, Bacteria and Other Microorganisms** - Molds are forms of fungi that live on plant or animal matter and in indoor environments, frequently in water-damaged building materials such as gypsum wallboard, carpeting, wood, and ceiling tiles. Molds thus can be found in residential, commercial, or industrial structures. Potential sources of moisture that can lead to mold infestation include leaking pipes, flood damage, leaking windows and roofs, HVAC leakage, sewage backup, and inadequate ventilation.

Policy:

- Hazardous Materials in Real Estate Investments

**National Council of Real Estate Investment Fiduciaries Index** - A property level performance benchmark for institutionally owned real estate. The benchmark is composed of an income return, an appreciation return and a total return and is calculated on a quarterly basis.

Policies:

- International Equity Real Estate
- Equity Real Estate
- Extended Market Public Real Estate Equity Securities (Extended Market PREES)
- Enhanced Core Index Public Real Estate Equity Securities (Enhanced Core PREES) - Internally Managed

**NCREIF Farmland Index** - National Council of Real Estate Investment Fiduciaries Farmland Index (NCREIF); may be used as a benchmark for performance objectives.

Policy:

- Agricultural Land Real Estate Investment

**NCREIF Timber Index** - National Council of Real Estate Investment Fiduciaries Timber Index (NCREIF); may be used as a benchmark for performance objectives.

Policy:

- Timber Real Estate

**Neighborhood Shopping Center** - Retail property that serves customers residing within the immediate neighborhood, typically within a 3-mile radius. Neighborhood shopping centers provide convenience for consumers by supplying groceries, drugs, and other services used on a weekly or more frequent basis. The size range is typically 30,000-150,000 square feet of shopping area. The projects typically feature at least one anchor.

Policy:

- Core Retail Real Estate

**Operator** - Any individual, partnership, limited liability company, or other entity employed to manage the Senior Housing Program's projects' day-to-day business and affairs on behalf of the partnership.

Policy:

- Senior Housing Program

**Operator/Franchisee** - The party authorized by the owner of the trademark, trade name, or copyright to purvey goods or services.

Policy:

- Franchise Finance Real Estate

**Option** - Contracts that give the purchaser the right, but not the obligation, to buy or sell an underlying instrument at a certain price (the exercise or strike price) on or before an agreed date (the exercise period). For this right, the purchaser pays a premium to the seller. The seller (writer) of an option has a duty to buy or sell at the strike price, should the purchaser exercise his right.

Policy:

- Extended Market Public Real Estate Equity Securities (Extended Market PREES)

**Participating Mortgage** - An investment structure where the lenders (the System) return consists of mortgage interest plus potential contingent interest expressed as a percentage of property operating cash flow and/or property appreciation upon sale or refinancing.

Policy:

- Equity Real Estate

**Partner/Member** – Refers to CalPERS and its investment partner (or the case of an LLC, in its capacity as a member) that are collectively charged with the fiduciary responsibility for performing all duties as detailed in the investment operating agreements.

Policies:

- All Real Estate Policies

**Passive Investing/Management** - Investing in a manner that attempts to replicate the characteristics and performance of a market index. In theory, passive investing/management assures investment performance is neither worse nor better than the market as a whole. In practice, actual results differ from the results reported for the index due to transaction costs and tracking error.

Policies:

- Extended Market Public Real Estate Equity Securities (Extended Market PREES)
- Enhanced Core Index Public Real Estate Equity Securities (Enhanced Core PREES) - Internally Managed

**Petroleum Compounds and Chemicals in Storage Tanks** - Both above ground and under ground storage tanks are widely used at residential, commercial and industrial sites for storing fuels, chemical raw materials, pesticides, or lawn care products, waste oils, and other hazardous substances and wastes.

Policy:

- Hazardous Materials in Real Estate Investments

**Polychlorinated Biphenyls (PCBs)** - PCBs formerly were widely used as insulating fluids in electrical transformers and capacitors and in fluorescent light ballasts.

Policy:

- Hazardous Materials in Real Estate Investments

**Power Center** - A larger community center retail property that typically serves customers within a 5- to 10-mile radius. Power centers typically offer general merchandise at discounted price points and often feature an array of “category killer” retailers. The size range is typically 250,000- 600,000 square feet. The projects typically incorporate at least three anchors.

Policy:

- Core Retail Real Estate

**Primary Metropolitan Statistical Area (PMSA)** - A geographic unit used by the Bureau of the Census for reporting consolidated demographic and economic information. Each PMSA consists of a large urbanized county or cluster of counties that demonstrates very strong internal economic and social links, in addition to close ties to other portions of a larger urbanized area or CMSA (Consolidated Metropolitan Statistical Area).

Policy:

- Equity Real Estate

**Property Life Cycle** - The cycle of business which a restaurant or other business experiences (i.e., newly opened, established, failing, failed).

Policy:

- Franchise Finance Real Estate

**Property Sites** - The location of a property and its physical characteristics.

Policy:

- Franchise Finance Real Estate

**Public Real Estate Equity Securities (PREES)** - Real estate securities, including real estate investment trusts and real estate corporations, whose stocks are publicly-traded.

Policy:

- Equity Real Estate

**Radon** - Radon gas, a decay product of radium, is found as a natural component of rock and soils.

Policy:

- Hazardous Materials in Real Estate Investments

**Real Estate Investment Trust (REIT)** - Refers to a private or publicly traded company which typically invests in income-producing properties and which qualifies as an REIT under Sections 856-860 of the Internal Revenue Code of 1986. As an REIT, a company must distribute to its shareholders at least 95 percent of its taxable income and is not subject to federal (and typically state) income tax to the extent income is distributed, among other requirements.

Policies:

- Equity Real Estate
- International Equity Real Estate
- Enhanced Core Index Public Real Estate Equity Securities (Enhanced Core PREES) - Internally Managed
- Extended Market Public Real Estate Equity Securities (Extended Market PREES)

**Real Rate of Return** - A nominal return adjusted to exclude the impact of inflation.

Policy:

- Equity Real Estate

**Reconstitution** - The screening which occurs every June 30 for potential additions or deletions to the index. The screening examines the market capitalization of Real Estate Investment Trust (REIT) stocks, their content, concentration of ownership and position in the market sector. Stocks which no longer meet the criteria of the REIT index according to this policy will be

eliminated from the index while new stocks which have qualified in the past year are included. A tolerance level will be applied to stocks which have dropped from the index since the past year in order to minimize transactional costs.

Policy:

- Enhanced Core Index Public Real Estate Equity Securities (Enhanced Core PREES) - Internally Managed

**Regional Mall** - A retail property that serves customers residing within a large trade area, often spanning a five to 15-mile radius. Regional malls emphasize current fashion goods spanning the general, apparel, home furnishings, and other merchandise categories. The size range is generally 400,000-800,000 square feet. The projects typically feature two or more anchors. The anchor chains may lease their stores from the mall owner or may own them independently and operate subject to a reciprocal easement agreement with the mall owner.

Policy:

- Core Retail Real Estate

**Return Deviation** - The difference between the total return of a portfolio and the total return of the benchmark index.

Policies:

- Enhanced Core Index Public Real Estate Equity Securities (Enhanced Core PREES) - Internally Managed
- Extended Market Public Real Estate Equity Securities (Extended Market PREES)

**Right of First Refusal** - Within the context of a joint venture, this is a right giving one owner of a property or position (Owner A) a first chance to buy the property or position if another owner (Owner B) decides to sell. Owner B must have a legitimate offer with specific terms and conditions, which Owner A has the option to match, consummating the purchase of the property or position. If Owner A refuses, the property or position can then be sold under said terms and conditions.

Policy:

- Equity Real Estate Joint Ventures

**Right of First Offer** - Within the context of a joint venture, this is a right giving one owner of a property or position (Owner A) a first chance to buy the property or position if another owner (Owner B) decides to sell. If Owner A refuses to make an offer, the property or position can then be sold to a third party. If Owner A makes an offer and Owner B rejects the offer, the property or position can be

sold, generally limited to a price no less than the Owner A offer, or some negotiated percentage of the offer from Owner A.

Policy:

- Equity Real Estate Joint Ventures

**Risk-Adjusted Rate of Return** - The total return adjusted for volatility of returns over time. That is, for two investments having an equal total return over an investment period, that investment which experiences the least volatility of returns has the higher risk-adjusted rate of return. The standard calculation of risk-adjusted rate of return is the “sharpe ratio”, defined as the difference between the investment return and the average T-Bill rate over the same period, divided by the standard deviation of the investment return over the period.

Policy:

- Equity Real Estate

**Sale Leaseback** - A financing arrangement in which an owner-user sells a property to a buyer (the System) and then simultaneously arranges to lease the property back from the buyer for continued use.

Policy:

- Equity Real Estate

**Shopping Center** - Retail property with less than 800,000 square feet of shopping space serving the immediate trade area (three to 10 miles). The category includes neighborhood shopping centers, community shopping centers, power centers, and specialty centers.

Policy:

- Core Retail Real Estate

**Silvicultural** - Care and cultivation of forest trees.

Policy:

- Timber Real Estate

**Specialty Fashion Centers** - A retail property that typically serves affluent customers within moderate to larger trade areas ranging from five to 15 miles. Specialty centers typically offer fashion-oriented goods and often feature many of the same chain stores that appear in better regional malls. These centers tend to be smaller than regional malls, typically spanning 50,000-250,000 square feet of shopping space. These centers may or may not be anchored.

Policy:

- Core Retail Real Estate

**Speculation** - Assumption of risk in anticipation of gain but recognizing a higher than average possibility of loss.

Policies:

- Enhanced Core Index Public Real Estate Equity Securities (Enhanced Core PREES) - Internally Managed)
- Extended Market Public Real Estate Equity Securities (Extended Market PREES)

**Speculative Development** - A development that is less than 75 percent pre-leased.

Policy:

- Opportunistic Real Estate

**Super Regional Mall** - A very large retail property that serves customers residing within the largest trade areas, often spanning 5- to 25-mile radii. Super regional malls emphasize current fashion goods and offer even broader variety and assortment of merchandise than regional malls. The size range is typically over 800,000 square feet and sometimes reaches 2 million square feet. The projects typically feature at least two, and can occasionally include as many as six, different anchors. As in malls, the anchor chains may lease their stores from the mall owner or own them separately and operate them subject to a REA.

Policy:

- Core Retail Real Estate

**Total Return** - The sum of the appreciation return and income return.

Policy:

- Equity Real Estate

**Triple Net Leased Asset** - A net lease under which the lessee assumes all expenses of operating the property, including taxes, insurance, and operating expenses.

Policy:

- Core Retail Real Estate

**USPAP** - Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation may be referenced for a standard definition of “market value” or “fair market value” for accounting purposes.

Policy:

- Agricultural Land Real Estate Investment

**Watchlist Status** - Indicates a level of concern, the degree of which shall be unique to each situation and quantified by staff to the Investment Committee.

Policy:

- Real Estate Investment Manager Monitoring Program - Externally Managed

**WRESI** - Wilshire Real Estate Securities Index.

Policy:

- International Real Estate Investment